

**SOUTH CAROLINA
DEPARTMENT OF REVENUE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 23, 2020

Mr. W. Hartley Powell, Director
South Carolina Department of Revenue
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Revenue (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures - South Carolina Department of Revenue (R44)**

Cash Receipts/Revenues

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following: General Fund: General ledger (G/L) Account 4040010002; Earmarked Fund: G/L Accounts 4030020000 (fund 38977000), 4110020000 (funds 30417000 and 32580000), and 4530030007; and Restricted Fund: G/L Account 4010010000.
2. Haphazardly select ten operating revenue transactions and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Fiscal Year 2019 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

The comparison of current year revenues to the prior year revealed that a gas tax deposit was not allocated to entities in accordance with State law due to a delay in posting the transaction to the accounting system.

Management's Response

The Department works with the State Treasurer's Office (STO) on the monthly gas tax allocation. We currently email the STO current month revenue figures and they respond with the current month's cash balances. The STO uses the lower figure for the allocation. This particular situation shows the need for a procedural update, as previous month (or year) activity is not included. We will discuss changes with the STO to strengthen these procedures.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations over \$500,000 and 10% for the General and Earmarked Funds and \$15,000 and 10% for the Restricted Fund.
4. Haphazardly select ten non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General (CG) listing of purchasing card transactions for Fiscal Year 2019 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the card holder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

6. Compare current year payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations over \$500,000 and 10%.
7. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
8. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations greater than 10%.
9. Haphazardly select five employees who terminated employment during the fiscal year to determine if each employee was removed from the payroll in accordance with the Department's policies and procedures and if each employee's last pay check, including any leave payout, was properly calculated in accordance with applicable State law.
10. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and if their first pay check was properly calculated in accordance with applicable State law.
11. Haphazardly select five bonus pay disbursements to determine:
 - The employee did not make more than \$100,000 annually.
 - The bonuses received during the year did not exceed \$3,000.
 - The bonus payment amount agreed to supporting documentation and was properly justified in accordance with Department policy.
 - The bonus payment was approved by the appropriate supervisor.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

12. Haphazardly select seven journal entries and three transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Reporting Packages

13. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklists to determine the appropriate reporting packages were submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
14. In addition to the procedure above, perform the following:
- **Cash and Investments Reporting Package**

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations, and determine if petty cash accounts are properly authorized.
 - **Prepaid Expenses Reporting Package**

Determine if amounts agree to the SCEIS Yearend Reporting - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.
 - **Capital Assets Reporting Package**

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.
 - **Operating Leases Reporting Package**

Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger. Agree applicable effective dates and future minimum lease payments on the Operating Leases Future Minimum Payment Schedule to the prior year Schedule. For any new operating leases reported, determine that the effective dates, periodic minimum payment, current expense, and future minimum payments were accurately reported based on inspection of invoices and lease agreements. Finally, confirm that the Department submitted copies of leases to the CG in accordance with the CG's reporting package instructions.

Reporting Packages (Continued)

- Litigation Reporting Package

Haphazardly select five transactions from the SCEIS Yearend Reporting - Litigation Expense report to determine if charges were properly coded and approved.

- Subsequent Events Questionnaires

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records.

Finding

For one of the five litigation expense report transactions inspected, an attorney fee was coded as a legal service and no corresponding attorney general approval was obtained.

Management's Response

The Department will adjust our procedures to ensure services provided by law firms are coded as attorney fees, unless the services are not specifically tied to a case. The Department will also review for attorney general approvals as necessary.

Composite Reservoir Accounts

15. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
16. Confirm that the Department submitted the required 2018-2019 Bank Account Transparency and Accountability Report to the State Fiscal Accountability Authority by October first of the fiscal year in accordance with Proviso 117.82 of the Fiscal Year 2020 Appropriation Act.
17. Obtain four haphazardly selected monthly reconciliations and perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
18. Haphazardly select and inspect five composite reservoir account receipts to determine if each receipt was properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, was recorded in the proper fiscal year, and any revenue collection and retention or remittance is supported by law.

Composite Reservoir Accounts (Continued)

19. Haphazardly select and inspect five composite reservoir account disbursements to determine if each disbursement was properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, is a bona fide expenditure of the Department, was paid in conformity with State laws and regulations, and goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of the procedures.

Assets and Personal Property

20. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger, and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
21. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Finding

It was determined that the cost of one of the five capital asset acquisitions inspected did not meet the CG's capitalization threshold.

Management's Response

The Department will alter our procedures to ensure at least two employees review costs of assets, to confirm which items meet asset thresholds and which items do not.

DORWay Report

22. Obtain the fiscal year 2020 DORWay Allowance for Doubtful Accounts Report. Compare the current balance of five haphazardly selected account types on the report to Department records. Haphazardly select ten individual balances from the Department's records and inspect supporting documentation to confirm proper inclusion and classification on the DORWay report.

We found no exceptions as a result of the procedures.

Appropriation Act/ Department-Specific Provisos

23. Confirm that the Department submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the Fiscal Year 2019 Appropriation Act.
24. Confirm compliance with the Department-specific state provisos of the fiscal year 2019 Appropriation Act by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Status of Prior Findings

25. Through inquiry and/or inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedures.